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Head of Falls Church Firm Admits Inflating Bills for Arms Shipments

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The president of a Falls Church-based firm that had an exclusive contract to ship U.S. military equipment to Egypt pleaded guilty yesterday to collecting \$8 million in inflated payments from the Defense Department after filing transportation bills that were sometimes three and four times higher than the company's costs.

As part of a plea-bargain agreement with government prosecutors, Hussein K.E.I. Salem, president of Egyptian American Transport and Service Co. (Eatsco), then submitted a \$3.02-million cashier's check to reimburse the government for the false claims and paid another \$40,000 in fines.

Salem also agreed to cooperate in a broader, diplomatically-sensitive investigation by the U.S. Attorney's office in Alexandria into billions of dollars in American arms that flowed to Egypt following the Camp David accords between that country and Israel. Sources say investigators are looking at what role some senior Pentagon officials may have played in approving the contract and payments to Eatsco under a military sales loan agreement between the U.S. and Egypt.

Prosecutor Ted Greenberg said the government is attempting to recover the remaining \$5 million that the government was overcharged. "The (\$3 million check) does not relieve other people from possible illegal acts against the government," he said.

Thomas S. Clines, a former top CIA official who helped Salem found Eatsco and later served as its vice-president, was named by Greenberg in court yesterday as conspiring to falsify the shipping invoices that were submitted to the Defense Department. Also named by Greenberg as a conspirator was Rolf Graage, the president of Hobelmann & Co., a Baltimore-based freight forwarder that contracted with Eatsco to handle the arms shipments to Egypt.

Lawyers for Salem and Graage could not be reached for comment yesterday. John Ellsworth Stein, a lawyer who represents Clines, declined to comment on the government's charges.

Eatsco was founded in 1979 by Salem, whom U.S. intelligence sources have identified as a former Egyptian military intelligence official, and Clines, a former business partner of convicted arms dealer Edwin P. Wilson, specifically to handle arms sales to Egypt. At the time, U.S. and Egyptian officials were concluding an unusually generous agreement under which the U.S. Federal Financing Bank extended \$1.5 billion in loans to the financially-strapped government of former Egyptian President Anwar Sadat to cover both the purchase and transportation of shipping advanced military equipment. The items to be purchased included M60 tanks, F16 jets, missiles, radar units and other American military items.

Egypt then designated the Falls Church firm as its agent to handle the purchases and Eatsco contracted with the Hobelmann firm and its Air Freight International Inc. subsidiary to be its freight-forwarder.

According to government prosecutors, Eatsco and Hobelmann made 38 separate arms shipments between November 1979 and Dec. 31, 1981. In 34 of those cases, false invoices were submitted to the Defense Security Assistance Agency (DSAA) that significantly inflated the company's shipping costs in order to disguise Eatsco's profits.

In one of the cases cited by the government, Eatsco submitted a \$1.3 million bill to the Pentagon on Sept. 11, 1981, for a shipment that cost the firm \$623,060. In another, it submitted a \$210,904 bill for a shipment that cost \$46,409.

A focus of the Alexandria investigation has been determining how Eatsco won approval from the Pentagon to handle the shipments and why the inflated claims were accepted by DSAA, which is responsible for supervising the execution of security assistance programs. In doing

so, prosecutors have investigated ties between Clines and two former Pentagon officials—Maj. Gen. Richard V. Secord, a former deputy assistant defense secretary who negotiated the arms agreement with Egypt, and Erich F. von Marbod, who formerly headed DSAA.

Secord, who has strongly denied any wrongdoing, was suspended for three months last year and finally retired from the government last May primarily because of the Eatsco investigation, his lawyer said yesterday. Defense Secretary Caspar Weinberger "was begging him to stay on but he came to the conclusion that he didn't want to be a liability to the government (and) he thought

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